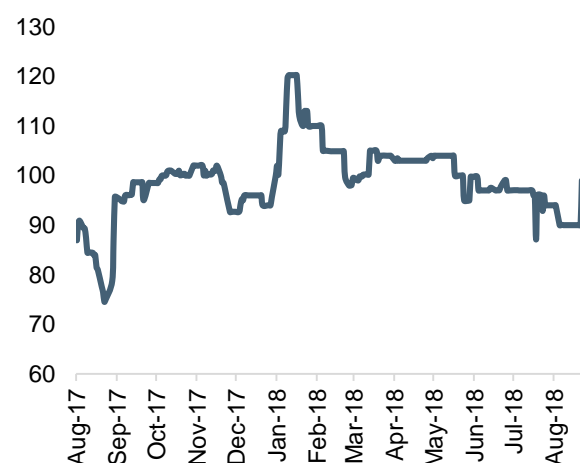


Rating	UNDERWEIGHT
Price	₦90.00
52-week range	₦74.01-₦120.25
Market Cap. (₦'bn)	216.848
1-month Avg. Vol	317,957
Curr. PE	18.9x

GUINNESS:NL - Share Price Trend



Analyst(s)

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Guinness Nigeria Plc. (GUINNESS.NL)

Initial View

Unimpressive earnings in the fourth quarter

- Guinness Nigeria released its full year 2018 result ended June 2018 wherein it reported EPS growth of 157% YoY to ₦3.30 driven by EBIT margin expansion of 127bps to 9.4% – following a moderation in operating expense to sales ratio (-584bps to 25.1%) which offset gross margin contraction of 440bps. Lower finance expense (-42.3% YoY to ₦5.6 billion) in FY 18 also drove the increase in EPS. Accordingly, Guinness declared a final dividend of ₦1.84 (+188%), representing a payout ratio of 55.6% and dividend yield of 2% based on last close price.
- Weaker revenue and profitability margins in FQ4 18.**
Focusing on the most recent quarter (FQ4 18), earnings was not impressive as it was down 63.4% YoY to ₦1.6 billion. It appears the company witnessed a slowdown in volumes particularly for popular mainstream lager beer – Satzenbrau and Dubic – as revenue grew by 4% YoY to ₦37.5 billion (vs. 11% and 15% in FQ2 18 and FQ3 18 respectively). We believe the company lost volumes due to intense competition in the sector alongside price increases it took over the period – with our checks showing double-digit increase in average prices over the quarter ahead of the new excise duty rates which took effect in June 2018. We believe the company lost market share to competitor – International Breweries – who left its prices unchanged for its mainstream lager products (Trophy and Hero) during the period despite price hikes from Guinness Nigeria and Nigerian Breweries. The volume pressure also must have informed the reversal of price increases on Satzenbrau in August. Owing to the slowdown in topline and faster

rise in cost of sales, gross margin and EBIT margin was weaker, contracting 10ppts and 9.4ppts to 34.8% and 7.2% respectively.

- ***Balance sheet remains healthy.*** Guinness' balance sheet remained healthy with total debt down 67% YoY to ₦13.7 billion, driving net debt-to-equity to 7.2%, lower than 82% as at FY 17. We recall that the company raised ₦39.7 billion via rights issue last year with about 70% of the proceeds used to pay down some of its related party and local debts. This reflected in FQ4 18 finance expense which fell 24% YoY to ₦655 million. On a quarterly basis, net debt-to-equity of 7.2% was slightly higher than 5.9% in 9M 18 due to lower cash (-36.2% QoQ to ₦7.5 billion) even as total debt declined 18% QoQ to ₦13.7 billion. Precisely, its cash position was depressed due to payments of ₦5.1 billion for trade & other payables and additional capital expenditure of ₦8.6 billion in FQ4 18. The additional capital expenditure of ₦8.6 billion seems a lot for maintenance CAPEX (9M 18 cumulative CAPEX at ₦8.4 billion; FY 17 CAPEX: ₦8.5 billion) which might be related to new capacity for its latest product – Royal Kingdom Premium Lager beer that was launched in FQ4 18. We would seek clarity at its investor conference call.
 - Our last communicated FVE of ₦88.21 translates to an **UNDERWEIGHT** rating on the stock. We will revisit our numbers after further analysis and discussion with management. Guinness Nigeria trades at a current P/E of 18.9x relative to Nigerian Breweries of 28.8x and International Breweries of 33.5x.
 - Guinness Nigeria will be hosting an earnings conference call today where Baker Magunda, MD/CEO Guinness Nigeria and members of the Executive team will discuss in detail the FY 18 results. Please see below details;
 - **Participant dial in: +44 (0) 20 3003 2666**
 - **Password: GuinnessNG**
 - **Time: 14:00 – 15:30 (WAT)**
-

Summary of Results and Forecasts - Naira (₦)

Income statement – (₦'million)	FQ4 18	YoY growth	Deviation from forecast	FY 18	YoY growth
Revenue	37,492	4.0%	-3.5%	142,976	13.5%
Cost of sales	24,452	22.8%	-4.9%	94,350	21.6%
Gross profit	13,040	-19.2%	-0.6%	48,625	0.6%
Operating expenses	10,552	1.2%	23.3%	35,908	-7.9%
Operating profit	2,707	-54.8%	-43.2%	13,386	31.4%
Net interest expense	656	-24.4%	783%	3,443	-54.2%
PBT	2,052	-60.0%	-57.6%	9,943	273.5%
PAT	1,629	-63.4%	-54.3%	6,718	249.2%

Key Ratios	FQ4 18	FQ4 17	Change (pps)	FY 18	FY 17	Change(pps)
Gross margin	34.8%	44.8%	-10.0%	34.0%	38.4%	-4.4%
EBIT margin	7.2%	16.6%	-9.4%	9.4%	8.1%	1.3%
PBT margin	5.5%	14.2%	-8.7%	7.0%	8.1%	-1.1%
PAT margin	4.3%	12.3%	-8.0%	4.7%	2.1%	2.6%
Effective tax rate	20.6%	13.2%	7.4%	32.4%	1.5%	30.9%

Source: ARM Research *unless otherwise stated

ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6-month period (minimum) to the review date. We adopt a 5-point rating system for this category of stocks and a 3-point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%		
SELL	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reasonable portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio
RESTRICTED	In certain circumstances, Asset & Resource Management ("ARM") Group policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of ARM Securities' and/or ARM Group's engagement in an investment banking transaction and in certain other circumstances.

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